BALTIMORE COUNTY FISCAL DIGEST

General Fund Revenues & The Economy

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REVENUE HIGHLIGHTS

FY 2002 County General Fund revenue totaled $1,200.7 million, $0.9 million or 0.1% above FY 2001 levels, representing the smallest increase since FY 1992 when total County General Fund revenue fell by 2.3%. Over the last ten years, County General Fund revenue increased by 49.7%, and over the last five years, revenue increased by 24.7% - nearly 5% per year on average. Thus, FY 2002 revenue growth was well below trend; this pattern is likely to persist for at least the next few years.

FY 2003 General Fund revenue is forecast to increase by $7.6 million, or 0.7%, to $1,208.3 million. This current revenue forecast is $1.4 million lower than the forecast reported in September and reflects an expected $13.9 million reduction in County General Funds received from the State, as well as stronger-than-expected revenue from property-related transfers (due to continued strength in County real estate transactions) and higher-than-expected "other" revenue. FY 2003 highlights:

- The County's largest revenue source, property tax revenue, is expected to show gains over the previous fiscal year and increase by $17.9 million, or 3.4%, over FY 2002 collections.

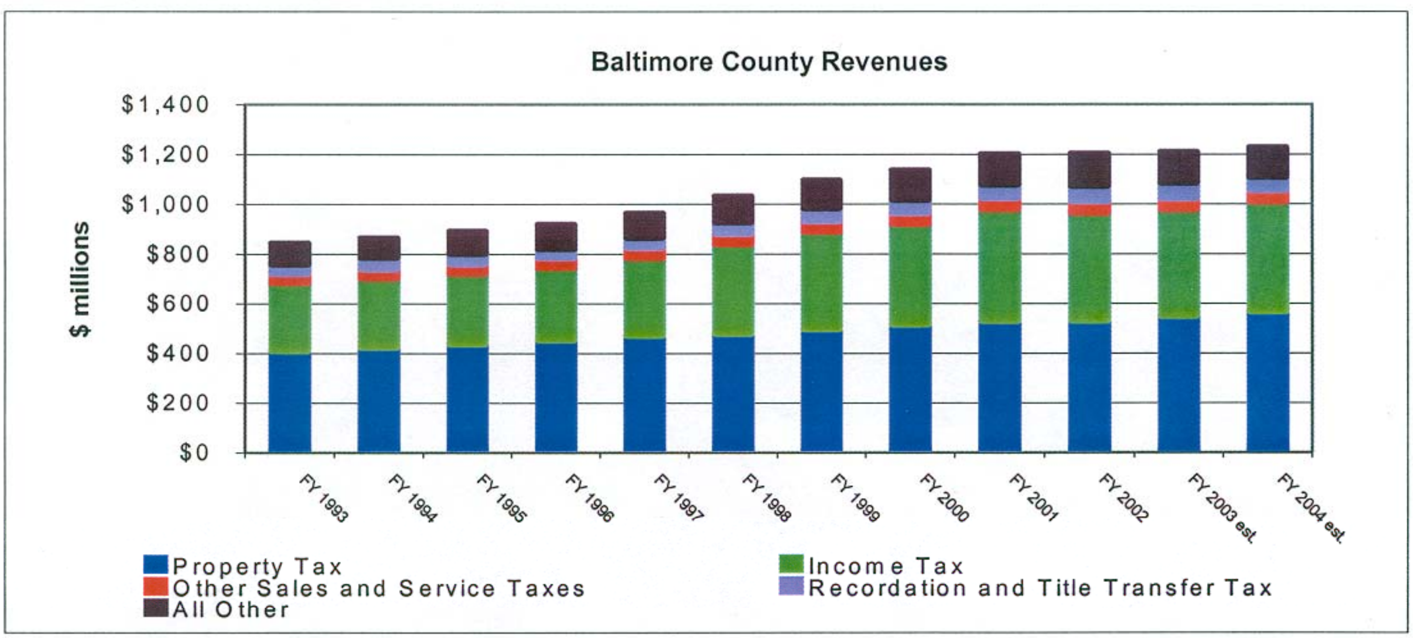
- General Fund revenue is projected to exceed expenditures by $8.1 million, bringing the County's surplus to an estimated $109.1 million, including $66.7 million in the Revenue Stabilization Reserve Account.

FY 2004 General Fund revenue is forecast to increase by $18.7 million, or 1.6%, to $1,227.0 million. This revenue forecast assumes expected reductions in General Fund revenues received from the State totaling $17.9 million. FY 2004 highlights:

- Property tax and income tax revenue combined are projected to increase by $31.5 million, advancing by 3.5% and 2.9%, respectively.

- Higher revenue from property and income taxes will be partially offset by lower revenue from property-related transfer taxes (recordation and title transfer revenues are projected to decrease by a combined $9 million, or 13.8%, due to a slowing real estate market and falling refinancing).

Even assuming no reduction in State aid to local governments, General Fund revenue would be expected to grow by only 1.8% in each of FYs 2003 and 2004.



NATIONAL ECONOMIC INDICATORS

The U. S. economy grew at a solid pace in 2002:Q3 with GDP increasing by 4.0%. Expectations are for a weak GDP performance in the final quarter of 2002 and relatively modest growth for all of 2003. To date, the economic recovery from the three-quarter recession in 2001 has been soft-to-average.

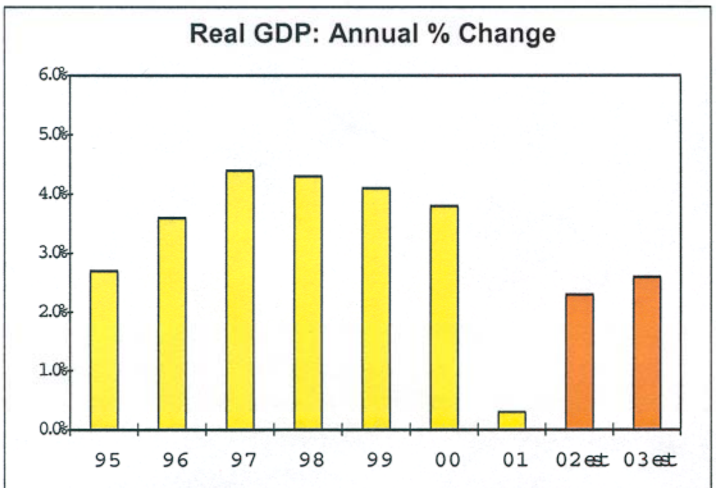
U.S. Gross Domestic Product (GDP) increased at an annualized rate of 4.0% in the third quarter of 2002, following a scant 1.3% increase in the second quarter and a stronger 5.0% increase in the first quarter. The third quarter's 4.0% annualized GDP growth was higher than most economists expected; however, many economists expect the economy to have slowed significantly during the final quarter of 2002. In the 2002:Q4 *Survey of Professional Forecasters,* released by the Federal Reserve Bank of Philadelphia on November 22, 2002, the 35 surveyed forecasters projected that GDP would expand at an annualized rate of just 1.3% in the final quarter of 2002. For the entire year, the forecasters projected that the economy would expand by 2.3% in 2002 and by 2.6% in 2003. To date, the U.S. has experienced a soft-to-average recovery from the mild three-quarter (2001: Q1 to 2001:Q3) recession, when GDP contracted by only 0.6%. From the trough quarter of economic activity in 2001:Q3, to 2002:Q3, GDP has increased by 3.2%. This GDP growth rate was stronger than the 2.3% GDP growth recorded four quarters after the last recession GDP trough (1991: Q1), but well below the GDP growth rates of 5.5% and 6.4% that occurred four quarters after the 1982:Q3 and 1975:Q1 recession troughs.

Consumers spent enthusiastically in 2002:Q3, especially on vehicles, and provided a strong impetus to overall GDP growth.

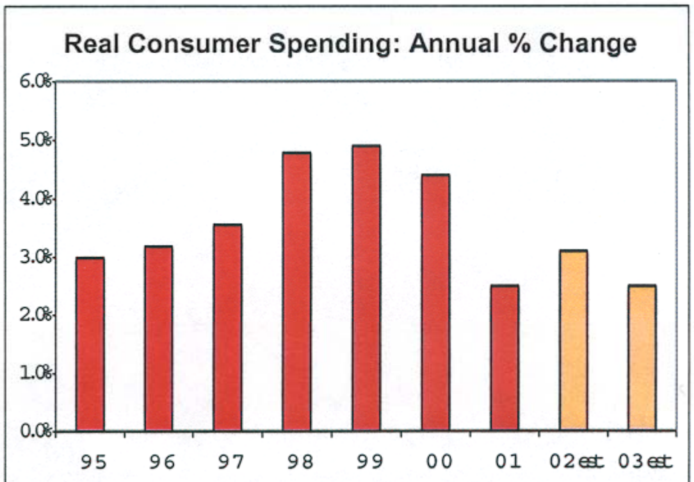
Consumer spending, which typically accounts for slightly more than two-thirds of all U.S. economic activity, increased at an annualized rate of 4.2% in the third quarter, well above the 1.8% annualized second quarter growth rate. Third quarter durable goods consumption, led by large gains in vehicles, was particularly strong (+22.8% annualized rate), while consumption of services and non-durable goods showed annualized increases of 2.3% and 1.0%, respectively. Overall consumer spending accounted for nearly three-fourths of total GDP growth in 2002:Q3.

Consumer confidence, after rebounding in November, slipped again in December. Tough labor market conditions continue to dampen consumers' spirits.

Consumer Confidence rebounded in November after 5 straight months of decline, only to drop again in December. According to the Conference Board, the private research group that surveys and publishes consumer confidence numbers, "the major factor dampening consumers' spirits has been the rising unemployment rate and the discouraging job outlook." The Conference Board added that until labor market conditions improve, no significant upturn in consumer confidence is likely. The number of consumers rating business as "good" declined in December, and the number of consumers rating jobs as "hard to find" rose.



Estimate Source: FRB of Philadelphia, November 2002



Estimate Source: FRB of Philadelphia, November 2002

Short-term interest rates have not been at these sustained low levels since the late-1950s.

Interest rates, especially short-term rates, are down considerably since January 2001. Since January 2001 the Federal Reserve has made twelve interest rate cuts bringing the federal funds rate down from 6.5% on January 3, 2001 to 1.75% by year-end 2001, and to 1.25% on November 6, 2002 - a level not sustained on a consistent basis since 1958. Until the surprising November interest rate cut, short-term interest rates were fairly stable during 2002. Since November's cut, other short-term interest rates have moved down in unison over the last two months.

Further interest rate cuts are less likely given the current Federal Reserve policy stance.

Further interest rate cuts are now less likely due to the surprise 50-basis-point rate cut in November, the current low level of interest rates, and the more balanced risks the Federal Open Market Committee (FOMC) now sees between inflation and economic growth. After its December 10, 2002 meeting, the FOMC left its policy outlook stance unchanged, perceiving currently-balanced risks to its long-term goals of price stability and sustainable economic growth. The FOMC meets again on January 28 and 29, 2003.

Long-term interest rates have moved down only slightly since the start of the recession in March 2001; however, they are at relatively low levels.

Long-term interest rates have shown little movement compared to short-term interest rates. (While the Federal Reserve can influence short-term interest rates, it has virtually no control over long-term rates.) The following table illustrates the recent declines in both long and short term interest rates since January 2001:

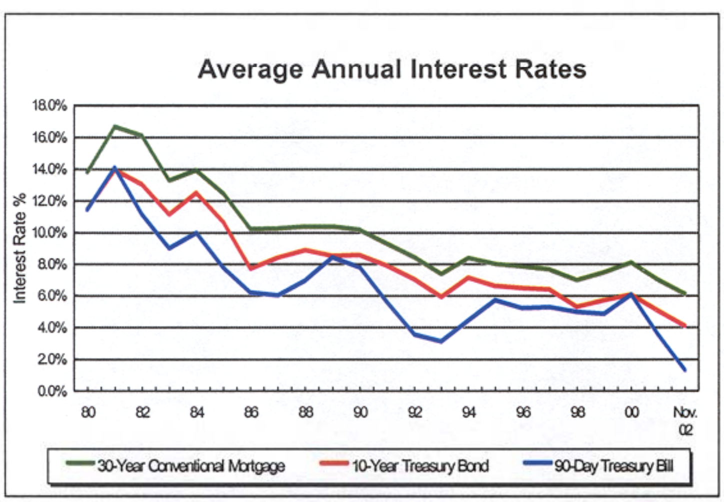
INTEREST RATE DECLINES FROM JANUARY 2001 TO NOVEMBER 2002

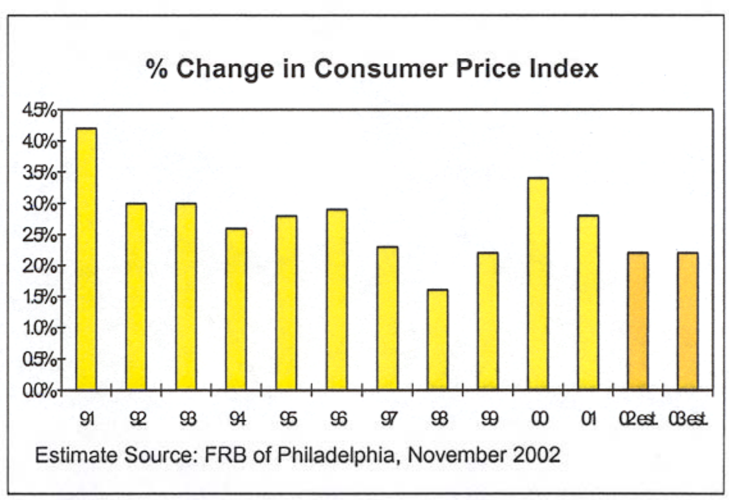
	Basis Points*
90-Day Treasury Bills	404
10-Year Treasury Bonds	111
30-Year Conventional Mortgage	96

* a basis point is equal to .01 percentage points.

From November 2001 to November 2002, consumer inflation was 2.2%. Inflation is forecast to increase by 2.2% in both 2002 and 2003.

Inflation, as measured by the Consumer Price Index-All Urban Consumers, was 2.2% over the November 2001 to November 2002 period, somewhat below the recent trend level. Higher medical care and housing costs are the principal culprits driving recent inflation numbers. Current inflation forecasts for 2002 and 2003 (year-over-year annual average) are 2.2% for each year, according to the Federal Reserve Bank of Philadelphia's *Survey of Professional Forecasters* published in November.





THE LOCAL ECONOMY IN PERSPECTIVE

EMPLOYMENT

County resident employment continues to grow despite a tough national labor market.

Employment among County residents increased by an estimated 8,770 persons, or by 2.3%, from 2001:Q3 to 2002:Q3. Over the same period, total employment of State residents increased by 2.1%. On a year-over-year basis from November 2001 to November 2002, Baltimore County and State resident employment increased by 1.9% and 2.2%, respectively, while national employment declined by 212,000 persons, or 0.2%.

The number of County jobs increased by 0.3% over the 2001:Q1 to 2002:Q1 period. County employer payrolls were up by 1.4%.

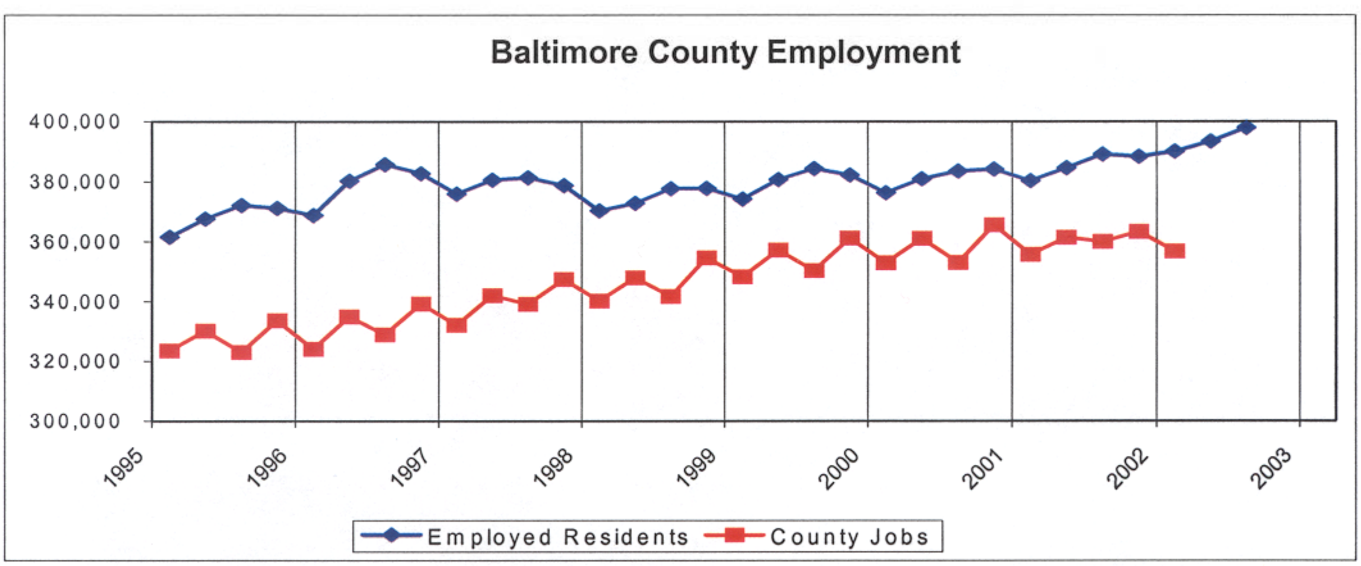
County jobs data lags resident employment data by several quarters and measures the number of jobs provided by most County employers. Peak job numbers for both the County and State were reached in 2000:Q4, the quarter prior to the start of the three-quarter recession in 2001. From 2001:Q1 to 2002:Q1, County jobs increased by 0.3% and payrolls rose by 1.4%, while at the State level, jobs rose by 0.3% and payrolls increased by 2.6%. Nationally, the non-farm payrolls lost an additional 40,000 jobs in November, and since the recession officially began in March 2001, 1.6 million jobs have been cut. In October 2002, RESI forecast that County jobs would decline and then show very little growth in 2003.

The County's November unemployment rate was 4.3%, nearly one-half of a percentage point above the State average, but well below the national rate.

Unemployment among County residents increased slightly—by 554 persons—over the 2001:Q3 to 2002:Q3 period; however, the County's labor force expanded by 9,325 persons over the same period. The County's unemployment rate averaged 4.5% in 2002:Q3, unchanged from a year earlier. Within the six-county-plus-Baltimore City Baltimore Metropolitan Area (BMA), the County's November unemployment rate of 4.3% was slightly below the BMA average but was second-highest behind Baltimore City's unemployment rate of 7.5%. Statewide in November, the unemployment rate was 3.9%. Nationally, the unemployment rate rose to 6.0% in November, the highest national unemployment rate since August 1994, and remained at 6.0% in December.

County resident employment growth and higher wages will likely support growth in County income tax revenue.

Income tax revenue, the County's second largest revenue source, is derived principally from earned income from jobs. County resident employment has held up well compared to national figures, and therefore income tax collections are expected to show gains in FYs 2003 and 2004.



PERSONAL INCOME

From 1990–1998, personal income growth in Maryland and Baltimore County were nearly identical, but since 1998 Maryland personal income growth has apparently been outpacing the County's. Spring data revisions could refute this observation, however.

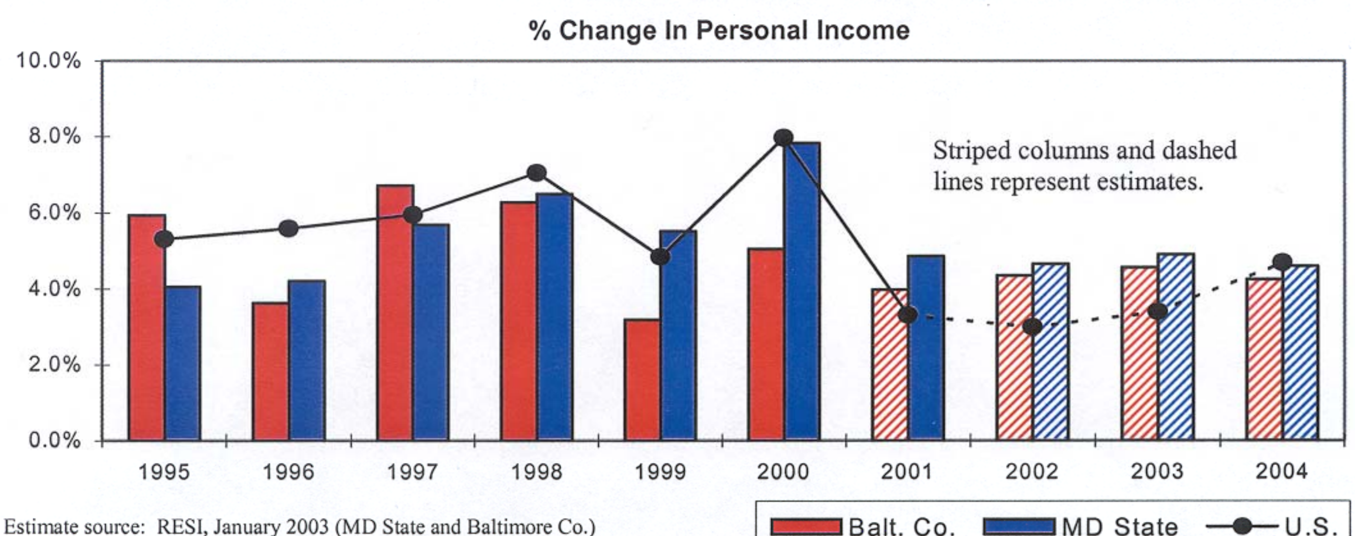
Because county personal income data lag state data by over a year, the most recent county data are for 2000. Over the 1990 to 2000 period, personal income in Maryland and Baltimore County advanced by 63.3%, and 54.3%, respectively. However, personal income growth in the County and State was almost identical over the 1990 to 1998 period (42.3% in the County versus 43.5% in the State). From 1998 to 2000, personal income growth accelerated at the State level, to 13.8% over the two-year period, while at the County level it was only 8.4%. The reason for the large divergence in income growth in the late 1990s is unclear, but it is important to note that while Maryland personal income data for 1999 and 2000 were revised upward in November, County data revisions will not occur until spring. Thus, at this point, it is difficult to know the extent to which Baltimore County personal income growth lags (or does not lag) the State.

Personal income growth in Maryland continues to outperform that of the U.S.

Despite slow emergence from the 2001 recession, personal income in Maryland is increasing at a much faster pace than it is nationally. In 2001, Maryland personal income increased by 4.9%, well above the 3.3% increase recorded nationally. The most recent reading for State personal income shows Maryland's strong performance continuing. From 2001:Q2 to 2002:Q2, Maryland personal income increased by 4.1%, compared to 2.7% nationally.

Maryland personal income forecasts for FY 2004 are coming in higher than the revised FY 2003 forecasts.

For FY 2003, the County Spending Affordability Committee adopted a spending affordability index of 1.0451 (4.51%), based on an average of six FY 2003 personal income forecasts for the State of Maryland and the estimated ratio of Baltimore County to State personal income growth. Using the same methodology to calculate the FY 2004 spending affordability index, the growth factor for FY 2004 is 1.0435 (4.35%). Personal income forecasts for Maryland for FY 2004 provided by the six forecasters average 4.70%, up from the revised FY 2003 forecast of 4.16%. However, FY 2004 personal income forecasts show a fairly high degree of divergence, with the low forecast at 4.01% and the high forecast at 5.36%. This broad spread suggests a heightened degree of uncertainty.



Estimate source: RESI, January 2003 (MD State and Baltimore Co.)
Economy.com, November 2002 (U.S.)

EXISTING HOME SALES

FY 2003 Y-T-D sales of existing Baltimore County homes are off by 1.2% compared to a year earlier, but resale activity still remains very strong.

Existing home sales in Baltimore County in FY 2002 (July 2001 through June 2002) totaled 10,049 units, up an impressive 9.5% over FY 2001 sales. Year-to-date FY 2003 (July 2002 through October 2002) existing home sales in the County totaled 3,611 units, 1.2% below the comparable FY 2002 period. Despite the small decline in Y-T-D County existing sales, recordation and title transfer tax revenues over the July – October 2002 period were up 10.4%, reflecting higher sale prices for existing homes in the County, which were also up by 10.4% over the same period. Existing home sales are expected to continue strong for the balance of FY 2003 and for FY 2004, but at a flat or slightly lower pace, reflecting a slow recovery, nervous consumers, and an active inventory of homes for sale that was down by 27.2% from the October 2001 – October 2002 period.

October 2002 pending existing home sales were 9.1% above the October 2001 level.

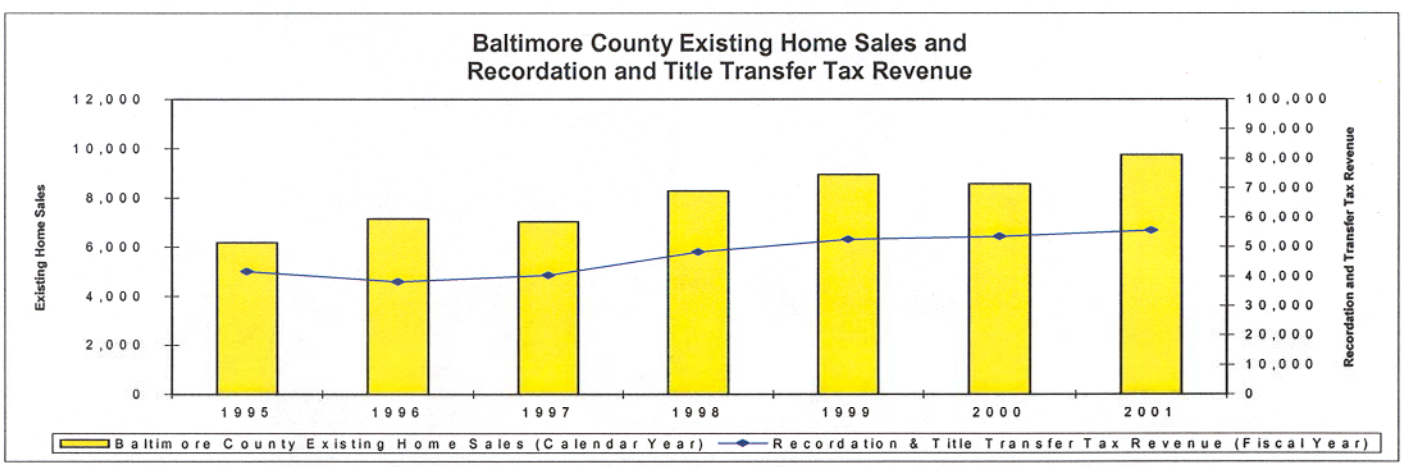
Pending existing home sales in October 2002 totaled 964 units, up by 80 units, or 9.1%, from October 2001 and 5.7% ahead of September 2002 levels. Pending existing home sales in the County remain strong despite the low inventory level, reflecting near-record-low mortgage interest rates that have increased consumer demand. However, higher prices may be starting to negate the benefits of lower mortgage rates.

Higher home prices are beginning to offset the benefits of lower mortgage interest rates in terms of monthly principal and interest payments.

Mortgage interest rates were 51 basis points lower in October 2002 (6.11%) than in October 2001 (6.62%). Despite lower mortgage interest rates, the monthly principal and interest payment for the average-priced Baltimore County home in October 2002 (financed with a 30-year conventional mortgage loan and a 10% down payment) increased by 8.5% to $972 from a year earlier. The increase occurred as a result of higher home prices offsetting the benefits of lower interest rates. The average price of an existing home sold in Baltimore County in October was $178,000, up 14.4% from October 2001. From January 2002 through October 2002, existing home prices in Baltimore County were 8.7% more than in the comparable 2001 period.

Property-related transfer tax revenue is projected to continue to increase in FY 2003, then retract somewhat in FY 2004.

Property-related transfer tax revenue (from recordation and title transfer taxes) is expected to increase slightly in FY 2003, reflecting fewer housing transactions at higher prices. In FY 2004, it is not expected that higher home prices will be enough to offset fewer home sales and lower refinancing rates; as a result, property-related transfer tax revenue could decline by over 15%.



CONSTRUCTION

The total value of new construction permits in 2002:Q3 was down 25% from 2001:Q3 but up 7% from 2000:Q3.

Construction permits issued in Baltimore County in 2002:Q3 totaled $182.2 million, $59.2 million or 24.5% less than in the comparable 2001 period. Despite this slippage, the value of those permits was up over 7% from 2000:Q3. While certain aspects of County construction are slowing, especially commercial alterations, additions and repairs, the overall construction market still appears relatively healthy and continues to make a positive contribution to the County's property tax base.

Non-residential building activity in 2002:Q3 was up dramatically from the same period in 2001.

New non-residential building activity, perhaps the most volatile component of new construction, in 2002:Q3 had its strongest showing of the year and was well ahead of 2001's third quarter. In 2002:Q3, the value of non-residential building permits totaled $31.5 million, $12.5 million, or 66.1% ahead of 2001:Q3.

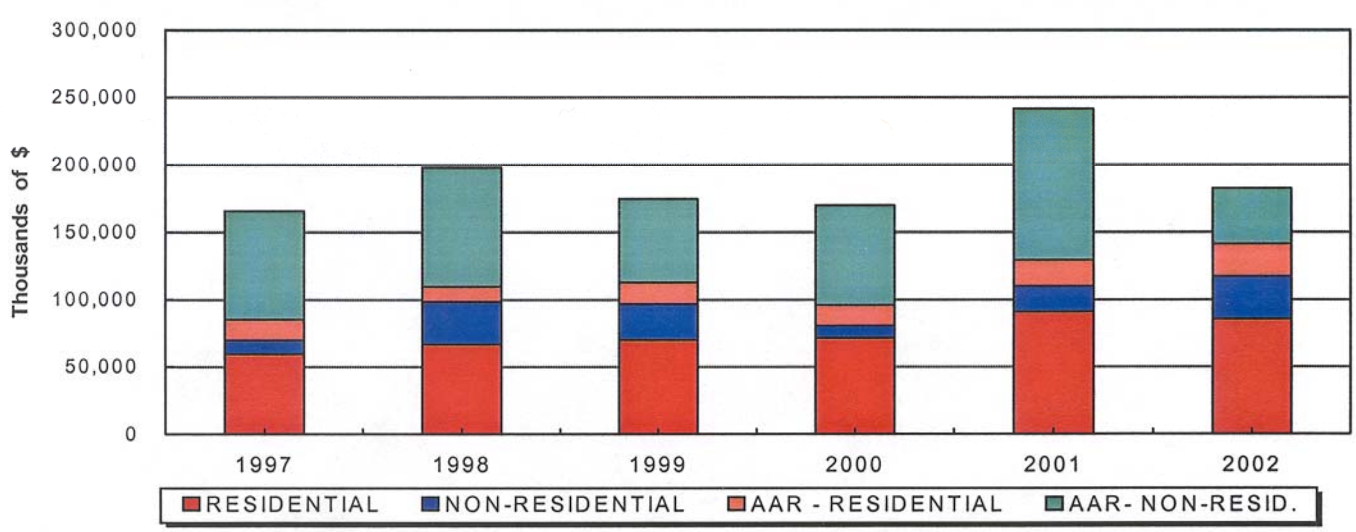
AAR activity was down sharply over the 2002:Q3 to 2001:Q3 period, reflecting weak non-residential activity. On the other hand, residential AAR activity was strong.

Additions, alterations, and repairs (AAR) activity in 2002:Q3 totaled $65.3 million, 50.4% below the comparable 2001 period. AAR activity accounted for only 36% of the total value of new construction permits in the County issued in 2002:Q3, down sharply from 55% and 53% in 2001:Q3 and 2000:Q3, respectively, due to a drop-off in non-residential AAR. At the same time, residential AAR increased by 24.9%, from 2001:Q3 to 2002:Q3, likely due to low home equity loan rates and the recent trend toward real estate versus stock market investment.

New residential building permits were down in 2002:Q3 from the year-earlier period, mostly reflecting the extraordinarily strong comparison quarter.

New residential building permit figures show third quarter multi-family unit permits down 65.1%, single-family unit permits declining by 31.7%, and total permits down 45.2% from a year earlier. The declines in residential permits reflect an extraordinarily strong comparison quarter in 2001:Q3. The value of new residential permits in 2002:Q3 was only 6.0% below 2001:Q3, but 20.1% above 2000:Q3. Overall, the number of new residential permits issued can be quite volatile, and therefore quarter-to-quarter comparisons at times appear unusual. But, the value of new residential building permits continues to be influenced by the trend toward larger homes with more amenities.

Value of Baltimore County Construction Permits: July Through September



COUNTY GENERAL FUND REVENUE

Assuming no reduction in State aid to local governments, General Fund revenue is expected to grow by only 1.8% in each of FYs 2003 and 2004. This relatively slow growth follows FY 2002 growth of only 0.1%. At no time in recent history (i.e., since FY 1970) has General Fund revenue displayed such a weak 3-year performance.

When potential loss of State aid is considered, County General Fund revenue is expected to grow by 0.7% in FY 2003 and 1.6% in FY 2004.

FY 2003 General Fund revenue will be buoyed by increased revenue from property taxes and property-related transfers. FY 2004 General Fund revenue is expected to reflect stronger growth in income tax revenue, with somewhat weaker revenue from property-related transfers.

Recommended reductions in State aid to local governments would result in a $31.8 million direct General Fund revenue loss to the County over the next two fiscal years. Other recommendations could further exacerbate the impact of State budget woes on the County.

General Fund Revenue FY 2002—2004

Revenue Source	FY 2002	Adopted Budget FY 2003	Current Estimate FY 2003*	Current Estimate FY 2004*
Property Taxes	$527.1	$545.3	$545.0	$564.0
Income Taxes*	433.8	438.9	427.1	439.6
Sales & Service Taxes	45.6	45.2	45.9	47.2
Recordation Taxes	22.6	17.6	23.0	20.0
Title Transfer Taxes	40.3	30.0	42.0	36.0
Investment Income	5.3	6.3	5.0	5.0
Intergovernmental*	74.8	73.9	73.6	71.4
All Other	51.2	43.0	46.7	43.8
Total Revenue	$1,200.7	$1,200.2	$1,208.3	$1,227.0

FY 2003 General Fund revenue is projected to reach $1,208.3 million, up $7.6 million, or 0.7%, from FY 2002 totals. Collections at this level would make FY 2003 the second consecutive year of less than one percent revenue growth – and some of the slowest growth in recent history. The current projected increase in FY 2003 revenue is nevertheless $8.1 million higher than the Adopted Budget. At the same time, expected FY 2003 revenue is $13.9 million lower than the estimate reported in December due to the increasing likelihood of reductions in revenue from the State in both FY 2003 and FY 2004 (Source: Commission on Maryland's Fiscal Structure 2002 Interim Report, December 15, 2002).

The FY 2003 estimate reflects stronger-than-expected revenue from property-related transfers due to the surprising continued strength in County real estate transactions and higher-than-expected "other" revenue. Additionally, the County's largest revenue source, property tax revenue, is projected to increase by $17.9 million or 3.4% in FY 2003. If FY 2003 General Fund revenue and expenditures materialize as projected, the total surplus at the end of FY 2003 will reach $109 million, including $66.7 million in the Revenue Stabilization Reserve Account. FY 2004 General Fund revenue is estimated to reach $1,227.0 million, up $18.7 million, or 1.6%, from FY 2003 totals, reflecting moderate growth in property and income tax revenue offset somewhat by lower revenue related to property transfers.

* These forecasts assume possible reductions in County General Funds resulting from State budget actions (relatively comparable in magnitude to those taken during the last State fiscal crisis that occurred in the early 1990s). Specifically, the FY 2003 forecast assumes an income tax revenue loss of $13.9 million (due to an unallocated reduction to local aid administered through the local income tax), and the FY 2004 forecast assumes an General Fund revenue loss of $17.9 million (due primarily to a $15.4 million similar unallocated reduction to local aid). The basis for these specific assumed revenue losses is the 2002 interim report of the Commission on Maryland's Fiscal Structure, which recommends a list of specific items for balancing the State's FY 2003 and FY 2004 General Fund budgets.